

# Module 2. Key Growth Metrics

## Introduction

Before we dive into the performance and growth measurement of your venture, it is necessary to clarify an essential concept that will make you analyze whether your project is ready to scale or not. We are referring to the concept of **product-market fit**.

In the same way that the problem-solution fit is useful for ensuring that the problem to be solved was found, the product-market fit makes it possible to determine whether the solution to that problem has a large or convenient market to attract. Marc Andreessen, the co-founder of Netscape Communications Corporation and a principal partner in the venture capital firm Andreessen Horowitz, defines it as "being in a good market with a product that can satisfy that market" (Andreessen, 2007, <https://web.stanford.edu/class/ee204/ProductMarketFit.html>). That is, finding a good market that is expanding and will support your business in the short and long term.

Therefore, the product-market fit will help you define the capacity of that market by your business as well as the capacity of your product to meet the needs of that market. Likewise, many specialists agree with Andreessen's experience in which he states that the cause of death of startups is closely related to the definition of this fit, dividing the life of the venture into two phases: before product-market fit (BPMF) and after product-market fit (APMF). And, therefore, it is recommended that BPMF startup changes whatever is necessary to reach the product-market fit. That is to say, restructuring the product, moving into a different market, replacing people, etc., is the way to make the venture scalable (Andreessen, 2007).

Why is the product-market fit so important? Authors such as Ryan Law (2017) list many reasons to explain this fit:

- 1. Changing your priorities:** before finding the fit, your priority was to develop the product or service, even if it was necessary to pivot. After finding the product-market fit, the indicators begin to be more solid and the market demonstrates that it can support your business, knowing that your product solves a relevant need. This will reassure you when seeking or increasing investments for the growth of the venture.
- 2. Making sure it is safe to scale:** precisely, once it is confirmed that there is a market for your product and that it solves their problems, it will be easier to "take the leap" and start planning for growth.



3. **Markets change and you need to change with them:** technological progress promotes change constantly and it does so at a very fast pace, which means that both the product and the market are also affected by these changes. However, a periodic review of the fit will allow you to be attentive and evaluate the key factors that support your business, as well as to allocate the necessary resources in the short and medium-term.
4. **Poor PMF (product-market fit) kill companies:** it is very common that, when you do not have product-market fit, the first thing you think is that you are not a good salesperson or that you are not made for business or that your team is not sufficiently committed to the project; however, you hardly think that what is "wrong" is the product or the business model. This is very risky as it may lead to the decision to end the venture without giving it a chance first. When you have a product-market fit, your customers will let you know. This will be evidenced by real growth metrics as well as the enthusiasm and urgency of your customers to purchase the product or service.
5. **Prevent your startup from becoming a "living death" or a "zombie":** this happens when your venture cannot grow at the expected rate, you find it difficult to insert your product in the market and the startup's growth stagnates, hence it can reach break-even point, but without further growth.

Now, what factors can impair the definition of product-market fit? Ben Wiener (2014) lists three aspects that can cause a startup to fail, after failing to achieve the product-market fit. The aspects are the following:

- **Actual market size:** as we saw in previous modules when estimating the size of the market, it is of paramount importance to bear in mind that the product must match the needs of the majority of the market and not only those of early customers who are willing to try new experiences.
- **Willingness to pay:** there is a big gap between building a product that people want and building one that people will pay for. Many times, people's desire to use your product is just that: a desire. However, they are not willing to pay for it. So, it may be that your product fits the market, but the market cannot sustain that product. Therefore, you will need to develop your ability to monetize the use of your products.
- **Adequate solutions:** this factor has to do with achieving product-market fit by changing market behaviour. This can be achieved by creating an innovative solution.

Our insistence on the product-market fit coincides with the experience of many of the specialists we have named, who recognize that **traditional** metrics (e.g., number of users, sales, costs, etc.) do not matter until this fit is achieved. Once this happens, they become critical to success and growth.



## Unit 2.1 Key Growth Metrics

Key growth metrics, popularized by Dave McClure (2007), one of the founders of 500 Startups (U.S. business accelerator), also known as pirate metrics because of their AARRR pronunciation, refer to the following actions:

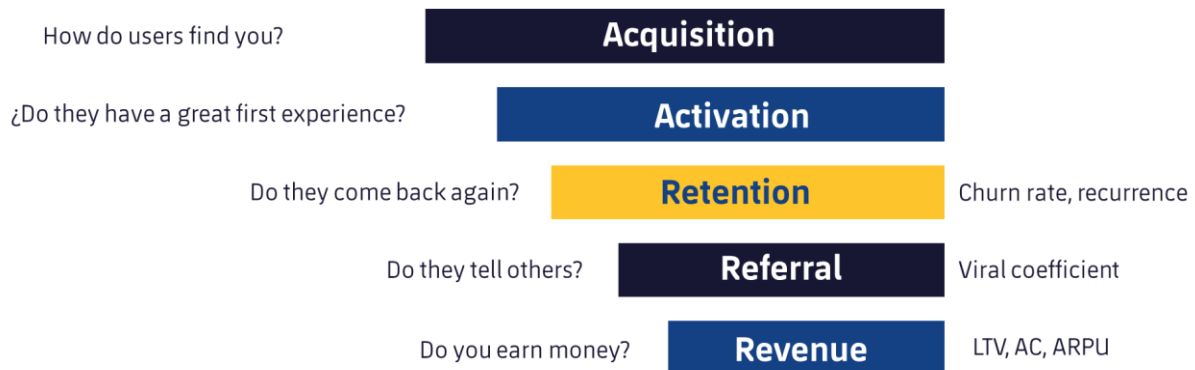
- **“Acquisition.**
- **Activation.**
- **Retention.**
- **Referral.**
- **Revenue.”** (McClure, 2007, [https://es.slideshare.net/dmc500hats/startup-metrics-for-pirates-long-version/7-Customer\\_Lifecycle\\_Conversion\\_Behavior\\_Websitecom](https://es.slideshare.net/dmc500hats/startup-metrics-for-pirates-long-version/7-Customer_Lifecycle_Conversion_Behavior_Websitecom))

These metrics are directly linked to the funnel concept, that is to say, get-keep-grow customers. These metrics are widely used for web products or services, but they can also be applied to any industry such as, for example, FC Barcelona's stores:

- **Acquire:** people who stop at **the shop window.**
- **Activate:** people who enter the store and **get interested in the products.**
- **Retain:** it has 2 phases
  - the first has to do with the interest shown, which can be evidenced, for example, by the time the person spends in the store;
  - the second phase refers to the loyalty of the customer who continues to buy from the store on future occasions after their first purchase.
- **Refer:** the customer who recommends the experience to another person and creates another potential customer.
- **Revenue or monetize:** the moment in which the customer finally buys.



Figure 1: Get-keep-grow customers funnel



Source: own elaboration.

McClure's funnel was created for software-as-a-service (SAAS) companies, following the order shown in Figure 1. Later, the funnel evolved and was taken over by entrepreneurs in other industries who adapted it to their business models.

In this regard, it is important to understand that the funnel fits each type of **business model**. Even though the stages are the same, the order of these stages may vary. For example, in some business models, the **referral** time is placed at the end. In others, **retention** and **revenue** can be switched as they depend on the type of business. In the case of Internet services and websites, before customers decide to buy (pay for the service), they return several times to the website, for different reasons that we will see later on, and finally, they decide to buy.

In the cases in which activation does not depend on retention, the latter is measured in terms of customer loyalty, which can also be a stage in itself, at the end of the funnel.

Below, we share data from a single model that integrates all funnel metrics. In this case, the acronyms are A, C, R, L, ticket M, and are linked as follows:

- **Acquisition:** we measure it as the number of **leads** and call it **attracting (A)**.
- **Activation:** we measure it with the **lead conversion rate** and the **user conversion rate** and call it **converting (C)**.
- **Revenue or monetization:** we measure it with  $(A * C + R + L) * \text{average ticket}$ , where:
  - A= **Attracting:** we obtain financing and leads at a low cost.
  - C= **Converting:** leads register and pay.
  - R= **Retaining:** our customers do not churn.
  - L= **Building Loyalty:** our customers are fascinated.



**Table 1: Funnel references**

<p><b>Acquisition:</b> we measure it as the number of <b>leads</b> and call it <b>attraction (A)</b>.</p>	<p><b>Attracting: we obtain financing and leads at a low cost.</b></p>
<p><b>Activation:</b> we measure it with the <b>lead conversion rate</b> and the <b>user conversion rate</b> and call it <b>conversion</b>.</p>	<p><b>Converting: leads register and pay.</b></p>
<p><b>Retention and referral:</b> we measure this as the number of new customers who do not churn (<b>retention</b>) as well as the number of old customers who remain (<b>loyalty</b>). It is explored in more detail from the definition of <b>cohorts</b> and through <b>retention coefficients</b> as well as <b>referral</b>, which we measure with the <b>viral coefficient</b>.</p>	<p><b>Retaining: our customers do not churn.</b></p>
	<p><b>Building Loyalty: our customers are fascinated.</b></p>
<p><b>Revenue or monetization:</b> we measure it with <math>(A * C + R + L)</math> * average ticket.</p>	<p><b>We increase the average ticket.</b> <b>Result: we sell</b></p>

Source: own elaboration.

## Acquisition

It helps to measure how users find you. Different channels should be considered, such as:

- Positioning in search engines such as Google.
- Public relations.
- Social media (paid and organic).
- Content campaigns, such as blogs.
- Direct advertising, such as television, newspapers or radio.
- Below the line (BTL) advertising. It is a non-mass communication modality to market in specific market segments.

Promoting products or services and taking advantage of the opportunities generated by new advertising channels requires creativity and originality. Different types of promotions can be combined, such as the traditional ones that take place on the street promotions with the ones on mass media (TV and radio), mass events, social networks and others.

Among the main channels for the promotion of products or services, you can find the following:

- Affiliate network.
- E-mail, e-mail marketing, e-mail campaigns.



- Applications and widgets.

Through the use of one or a combination of several of these channels, potential customers arrive at the landing page with all the information about the product or service. Besides, the customer can be offered the possibility of purchasing it online by credit card, Paypal, wire transfer or other means of payment.

Think, for a moment, about the FC Barcelona store. You will notice all the efforts that are made to make a person stop in front of the shop window. In this respect, you have to be able to detect the combination that generates the lowest costs and the highest performance or results, always to attract the largest possible number of potential users.

Next, we will deal with the parts of the funnel by analyzing some characteristics of the Barça Universitas model, Barça Innovation Hub's digital platform for the transmission of knowledge. This platform allows knowledge to be valued and shared with the world, through training programs.

"The goal of Barça Universitas is to promote professionalization in the sports industry through a transformative learning experience. It allows us to dream up, produce, and promote effective learning experiences all over the world" (FC Barcelona Innovation Hub, 2021, <https://barcainnovationhub.com/es/universitas/>).

As regards the channels for promotion used by Barça Universitas to attract new customers and about paid media actions, investments are made based on an allocated budget. These actions are focused on paid media campaigns on Facebook Ads and Google Ads.

All these campaigns are followed by an email nurturing strategy (a defined process of commercial email marketing actions). As for closing rates, defined as leads that turn into sales, these are shown below:

- Facebook Ads close rate: 2.20%.
- Google Ads close rate: 3.50%.

### **Activation**

After the acquisition, what you need to know is how many customers you get to show interest or take some kind of action towards your product or service. If we go back to the example of the FC Barcelona store, it would be the person who stopped at the shop window, entered the store and tried on some clothes.



Activation can be free, for example, giving a free month's use of the product or service, as Netflix does. The goal is that users have a good and happy experience. In this regard, it is recommended to make several different designs of the landing page to validate what most attracts the customer, if the page is understandable and what are the steps that the customer must perform within it to make a purchase.

It often happens that you visit a website and have no idea where to find the information, what the product is about or what you are supposed to do. Such pages are designed without taking into account the users and their user experience. If you are interested in learning more about web design, we recommend reading the book *Don't make me think*, by Steve Krug.

Generally, people spend a maximum of 30 seconds on each web page, look at 2 to 3 pages or parts of it, make 3 to 5 clicks and, hopefully, use some other feature of it and then leave. Later on, we will discuss customer retention at this point in the funnel.

If you have a website, you must be very clear about what you want the customer to do on your page once they visit it for the first time. You should give them clear instructions and signals, tell them where to click to start, where to leave their data, how to share the site with a friend or acquaintance, among other aspects.

Furthermore, it is essential to measure the number of people who enter the site and leave after 30 seconds, without performing any of the actions you propose. This data or indicator is known as the bounce rate, which must be constantly measured in order to get better.

In this respect, it is recommended to use three basic metrics:

1. Number of web pages visited.
2. Time spent on the site.
3. Conversions (how many subscribed, paid, signed up for the free month, etc.).

Continuing with the case of Barça Universitat, year after year the number of users (visitors entering the page) and the number of pages viewed increased. According to statistics, the average permanence of visitors on the page is 2 minutes 16 sec., taking the period of the last four years, with a total of 20,816,069 page views. Besides, the year-on-year increase in users is significant. From the first to the second year, the increase was 217%, from the second to the third year 107% and from the third to the fourth year 91%, reaching a total of 3,219,925 users.

Thus, through paid actions and organic generation, more than 1 million leads were reached.



## Retention

Once you have successfully activated your users, you will need to measure which of them return to the site, as not all of them will return regularly. Once the customer has entered your site and started using the product or service for free, you must maintain their level of interest through e-mails, content pieces, events, generating the content of interest, that is, adding value to the customer. Some companies send e-mails to their customers every 3 days, and others on a weekly or monthly basis to keep customer interest and involvement alive.

Another action used is to send via e-mail the best updates of the week or to keep the customer updated with the latest news and popular tools in the industry. For example, if you have a consulting service for SMEs in the sports industry and a website to attract customers online, you can send a weekly e-mail with the latest industry news, launch of new government support programs, management tools for SMEs, and so on. However, it is fundamental to pay attention to one important issue: you must include a simple system so that customers can unsubscribe from these e-mails and not be trapped in a bombardment of information and advertising that is of no interest to them.

Regarding the format of the e-mails, it is recommended that 80% of the relevant content be expressed through the title in order to capture the reader's attention and generate the opening and reading of the body of the e-mail. There are tools to measure how many people opened the e-mail, how many read it, how many clicked on it and where etc. You should not forget to include links to your website or relevant pieces of content in the e-mail.

Also, the number of active customers overtime should be measured, that is, how they are distributed over time. Likewise, the rate of loss of active customers will be very useful to act accordingly and also to analyze the "lifetime" of the customer.

Finally, to properly monitor retention, you will need to set appropriate goals, for example:

- Number of visits per month per customer: 1 to 3.
- Weekly e-mail open rate: 20%.
- Weekly e-mail click-through rate: 2 %.
- Low spam rate. A recommendation to take into consideration is that if you place too many links in the e-mails, Google will detect them as spam and, therefore, the customer will never read them.
- High customer lifetime.
- Low rate of loss of repeat customers.
- Detecting your fanatical customers.



Finally, you need to find out where your customers are coming from, whether your biggest source of visitors is from Facebook, Twitter, Google AdWords advertising or television.

## Referral

This happens when customers like the product so much that they refer it to their network of contacts. One option is to generate incentives for this to happen. For example, Dropbox, the online document storage service, in its early days, gave away 500 MB to each user who successfully referred the product to someone else. This encouraged millions of users to increase their online storage capacity and Dropbox became the most widely used storage product in the industry.

In order to implement referral programs, you need to have a good understanding of the cost structure of your business, your marginal costs per new customer, the user or activated account. As long as it does not generate extra costs, you should "give away" the product or service to as many customers as you can (for a certain period of time) to increase your number of customers. In other cases, these costs are covered by investment. As regards recommendations or referrals, these can be made by e-mail, social networks, word of mouth, etc.

Here is a formula to calculate the potential of your referral program:

### **A\*B\*C growth factor:**

- A: percentage of users who invite their contacts.
- B: average number of people that each user invites.
- C: percentage of the people invited who accept the invitation to use the product or service.

If that factor is greater than 1, organic customer acquisition growth can be exponential, since this factor means how many customers you gain for each user you have. Thus, if for every user you have you gain one or more new users, then growth can be exponential (McClure, 2007).

In the case of Barça Universitas, the repurchase rate is, on average, approximately 30%.

## Revenue (or monetization)

The economic return occurs when the customer pays for the use of the product or service. It is important to measure the number of customers who pay for your service or product.



For example, Spotify, an online music service, has a free version and a paid version with more features or benefits. Another example could be a bank customer (whose account is held by their employer) who purchases or consumes another bank product, such as an extra credit card or a personal loan.

Within this framework, a model that has good results is that of monthly or annual subscriptions, since they mean recurring income for the company. In this case, you should pay special attention to the duration and quantity of such subscriptions. This phase depends greatly on the monetization model you choose.

Continuing with the example of the FC Barcelona store, the concept of monetization, in this case, would be evidenced when the selected product is purchased. As for Barça Universitas, from its inception in 2017 to 2020, there was a 601% growth considering conversions only from the B2C (business to consumer) channel. In terms of B2B (business to business) channel conversions, through the Global Partners of this initiative, more than 5,000 participants have accessed the products to date.

It is also important to highlight that other indicators are also essential and that is part of the set of metrics that entrepreneurs must know and manage to run their business. Below, we will consider each one of them.

### **Customer Acquisition Cost (CAC)**

This metric indicates the amount of money it cost to attract a new customer during the period analyzed. It refers to the economic investment made to convert a potential customer into an end consumer. That is to say, someone who acquires your product. Generally, CAC comes from marketing or selling expenses. In this respect, it is worth clarifying that it is necessary to take into account both the salaries of marketing and sales employees and the direct costs associated with their activities to attract customers.

The indicated is used to make comparisons, either with other periods, with other business models similar to yours or with the customer lifetime value, since, on its own, the value does not contain much information. In the latter regard, the CAC always has to be lower than the customer lifetime value because, otherwise, it would imply that the investment in marketing and sales does not generate a return on investment. Therefore, the value of this metric lies in the information it provides on the amount of money invested in attracting a new customer, which allows estimating the investment in customer acquisitionn.

The customer acquisition cost is calculated as follows:



$$\text{CAC} = \frac{\text{Total investment in marketing and sales}}{\text{New customers acquired during [x] period}}$$

### Customer Lifetime Value (CLTV)

Customer Lifetime Value (CLTV) represents the value of a customer, their gross margin, based on the link they have with the company over time, more precisely, what you expect to obtain during the relationship in the future. This metric challenges you to forecast their future purchases based on the current one in order to assess the margin they will leave.

Its importance lies in the estimation of the profit associated with the relationship with a customer, i.e. how profitable a customer is as long as you have a relationship with them, which would be the opposite of the previous indicator: what it costed to acquire a customer.

This will serve as a guide to maintain the value of the relationship, since, if a customer's CLTV is 1000€, you will know that you should not spend more than that to maintain the relationship, otherwise you will lose profitability. In this context, two situations may happen: we may have a previous history with enough information about the client (more than 12 months) or we may be just starting (less than 12 months):

1. If we are just starting, we propose to calculate this indicator according to the following variables:
  - Average income of the client in each period (e.g., per month).
  - Gross margin percentage of each transaction (deducting direct customer service costs).
  - Life cycle (the average time the customer will be with us) (Megías, 2013).

The proposed formula is as follows:

$$\text{CLTV} = \text{Average Income per Month} \times \text{Average Gross Margin} \times \text{Life Cycle in Months}$$

2. If we have enough history, calculate this indicator as proposed by the authors of StartupSPS (n.d.), that is to say, with the customer attrition rate. The first step is to find out the average lifetime of a customer, i.e. how long they remain our customer:

$$\text{Average Lifetime of a Customer} = \frac{1}{\text{Monthly Dropout Rate}}$$



Then, the formula to obtain the customer lifetime value (CLTV\*) is the following:

$$\text{CLTV*} = \text{Average Lifetime of a Customer} \times \text{Average Revenue per Account} \times \text{Average Gross Margin}$$

## Churn

The churn rate is the percentage of customers who are lost or stop using your product in a given period (1 month, 6 months, 1 year, etc.). With this metric, you can monitor the rate at which you are losing customers, which is why it is also an indicator of how many new customers you need to win for every one you lose. Therefore, this calculation is complementary and opposite to that of customer retention.

What makes this metric interesting, in addition to its results, is the possibility of analysis it offers, since it will make you ask yourself several questions: why was the customer lost, did they not understand the product or how to use it, why they did not understand how to do it, why it did not cause them more interest, why it was not useful for them, and so on.

In order to obtain the churn rate, you need to have the number of customers you had at the beginning of the period (initial customers), plus the number of new customers acquired, from which you must subtract the number of customers you ended up with (final customers).

The formula is the following:

$$\text{Lost Customers} = (\text{Initial Customers} + \text{New Customers}) - \text{Final Customers}$$

Since the churn rate is the percentage of customers you lost in a period, you should calculate it with the following formula:

$$\text{Churn} = \frac{\text{Lost Customers}}{\text{Initial Customers}} \times 100$$

If the churn rate is 5% per month, it means that you lose 60% of the customers in one year or, in other words, a customer is with you 20 months ( $1/0.05$ ) before leaving you.



*In the early stages of a venture, it is difficult to deal with cases of dissatisfied customers who leave. For this reason, we can find the following healthy parameters:*

- *Maximum monthly cancellation rate: 8%, provided that the growth rate is 22% per month (5% per week). If the growth rate is less than 22%, we must address cancellations, regardless of their value.*

A useful recommendation is to identify the criteria that will be used to calculate it, that is, to define when a customer is inactive, which could be when they explicitly unsubscribe or when they stop using your product or service.

### **Cash Burn Rate (CBR)**

The burn rate exposes the money you spend every month, that is to say, the speed at which you use your funds, including salaries, marketing expenses, etc. This measurement will be very useful to know the operating cost as well as to plan the remaining months before you run out of money (if you divide this value by the money you currently have). This helps you anticipate whether you will seek investment or, in any case, know when you should be earning the money needed to, at least, cover costs.

To calculate it, you must add up all the estimated monthly fixed and variable costs. You should take into account that, in order to estimate the lifetime in months, if you do not yet have income, you should divide the burn rate by the capital you have available.



## Unit 2.2 KPI (Key Performance Indicators) and OPI (Operational Performance Indicators)

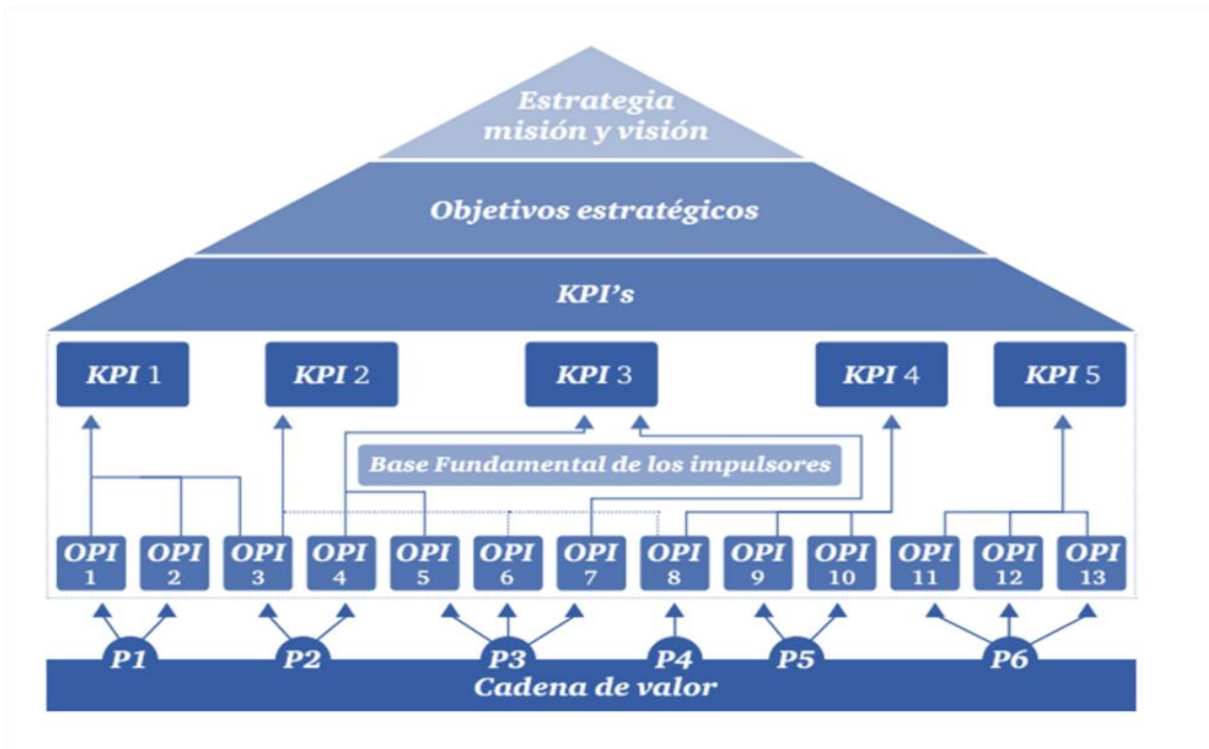
There are several indispensable indicators to apply in your venture. Two of them, which are very useful, are known by their acronym in English: KPI, which stands for key performance indicators, and OPI, which represent operational performance indicators. They both are useful for measuring the company's performance management.

These indicators can be used, fundamentally, in startups or ventures that are not yet mature enough to invest in a balanced scorecard or control panel. KPIs work effectively to establish and measure the achievement—or not—of the startup's strategic objectives while OPIs monitor the operational results of the different areas of the startup. This difference is substantial, since, it designates those responsible for its definition: KPIs are oriented to the strategic planning of the venture, that is, they are established by the management while the OPIs come from the operational knowledge (know-how) of the collaborators (Loria, 2009).

On the other hand, even though OPIs are simpler to determine, they require the clarification of several factors, such as the definition of the business and its processes, the perspective and intention of the owner and the technical definition, among others. All OPIs must be associated with KPIs, since they are the ones that provide support and feedback, which, in turn, promotes an intrinsic relationship between the KPIs and the value chain. Figure 2 shows the structure of strategic planning and the role of KPIs and OPIs in relation to this key business management activity.



Figure 2: Structure of a company's strategic planning



Source: PWC México, 2015, <https://www.pwc.com/mx/es/finanzas/archivo/2015-04-folleto-epm.pdf>.

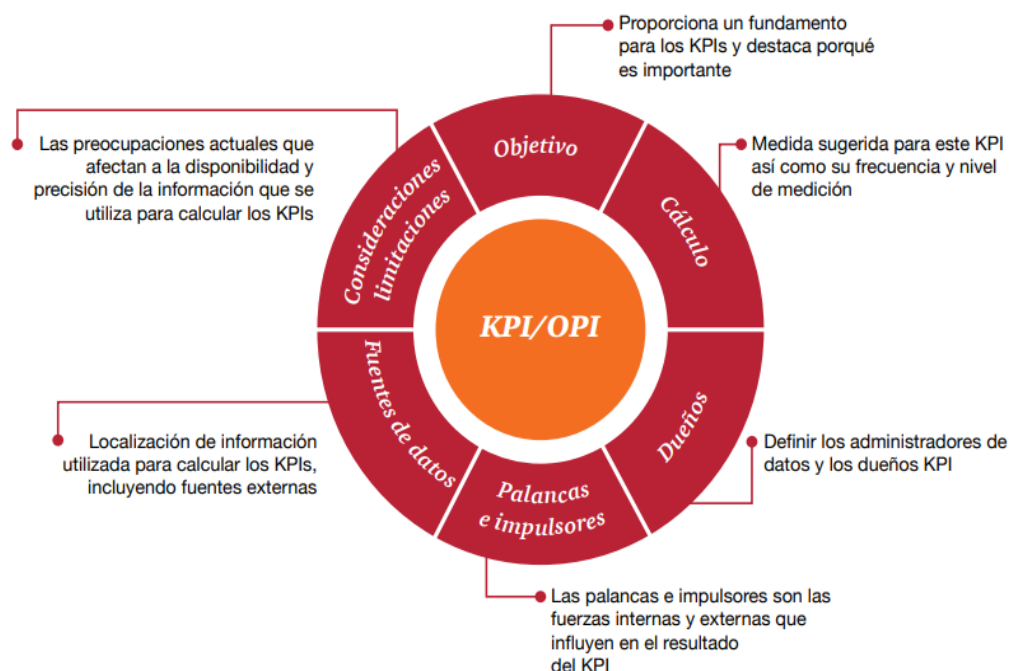
The English translation of this image is below.

Estrategia, misión y visión	Strategy, mission and vision
Objetivos estratégicos	Strategic objectives
KPI's	KPIs
Base Fundamental de los impulsores	Fundamental basis of the drivers
Cadena de valor	Value chain

Each of these indicators is made up of essential dimensions that you should take into account as they will facilitate the task of defining them. These are the following:



Figure 3: KPI and OPI Anatomy



Source: PWC México, 2015, <https://www.pwc.com/mx/es/finanzas/archivo/2015-04-folleto-epm.pdf>.

The English translation of this image is below.

<b>KPI/OPI</b>	<b>KPI/OPI</b>
<b>Objetivo</b> Proporciona un fundamento para los KPIs y destaca porqué es importante	<b>Objective</b> It provides a rationale for KPIs and highlights why it is important.
<b>Cálculo</b> Medida sugerida para este KPI así como su frecuencia y nivel de medición	<b>Calculation</b> Suggested measurement for this KPI as well as its frequency and level of measurement
<b>Dueños</b> Definir los administradores de datos y los dueños KPI	<b>Owners</b> Define data managers and KPI owners
<b>Palancas e impulsores</b> Las palancas e impulsores son las fuerzas internas y externas que influyen en el resultado del KPI	<b>Levers and drivers</b> The levers and drivers are the internal and external forces that influence the outcome of the KPI
<b>Fuentes de datos</b>	<b>Data sources</b> Location of information used to calculate KPIs, including external source

Localización de información utilizada para calcular los KPIs, incluyendo fuentes externas	
<p><b>Consideraciones</b></p> <p><b>Limitaciones</b></p> <p>Las preocupaciones actuales que afectan a la disponibilidad y precisión de la información que se utiliza para calcular los KPIs</p>	<p><b>Considerations</b></p> <p><b>Limitations</b></p> <p>Current concerns affecting the availability and accuracy of the information used to calculate the KPIs</p>

With this general information, let's look at each of these indicators in detail.

### Key Performance Indicators (KPI)

KPIs or key performance indicators are useful to measure the level of performance of a given process, emphasizing the how and indicating the effectiveness of the processes to achieve the given objective (IsoTools, n.d.). In this respect, they allow the translation of the mission and vision of the company's strategic plan into quantifiable objectives, and they involve employees in achieving them.

For their treatment, a colour classification (green, yellow, red traffic light) is usually applied to highlight information on compliance, i.e., the status or progress of each indicator following the objectives. These indicators should be reviewed periodically, since they show—even graphically—both progress and deviations from the expected results, allowing us to react in time.

KPIs must have certain characteristics that help sustain their consistency. Among them, we will highlight the main ones. Thus, a KPI should be...

- **Measurable:** as they are metrics, their main function is to provide a measurement in the defined unit;
- **Quantifiable:** following on from the previous parameter, if it can be measured, then it can also be quantified;
- **Specific:** the indicator should aim to measure a single aspect, which will imply being specific when defining what it will measure; however, carefully analyze the details of the company's operation in order to put together concrete and simple indicators that anyone can understand;
- **Temporal:** it must be possible to associate it with a temporal parameter that allows its measurement to be controlled and to represent it graphically to make its evolution easier and more legible;



- **Relevant:** the aspect to be measured must be key for the company or area in which management is measured, that is to say, you should only consider a factor that influences the business model (Espinosa, 2016).

These indicators must have a compliance officer that has the necessary competence, context and resources to adapt their processes to these measurements.

The question to ask is: how to identify the key aspects of the venture that should be measured? In this regard, the following analytical questions will help you to clear up this doubt:

- What do you want to measure and why would that factor be important to your venture?
- What strategic objective is this factor linked to? So, is it key to your venture?
- Is this factor linked to other aspects of the strategic plan or does it determine the performance of others?
- How often will you need to measure this factor?
- Who will be in charge of its supervision?

A good method for defining the key aspects is to recognize their parts, which will also facilitate their drafting.

- **Factor to be measured:** describe specifically what will be measured.
- **Way of calculating it:** the formula or method you will use to obtain the data.
- **Units:** next to the value, the units in which it will be measured must be specified.
- **Periodicity:** as mentioned above, time is a fundamental parameter, since it determines the periodicity with which the key factor will be measured. If it is really important, the frequency of analysis should be continuous.
- **Process:** take into account the processes or activities linked to the factor to be measured, as other indicators may depend on it.
- **Results:** consider that the results of this indicator should be used to compare with other results or predetermined values already available in order to provide information for decision making (Bernal, 2013).

### Operational Performance Indicators (OPI)

As we said before, the process to define these indicators is simpler than that of KPIs, since they are relevant measurements for the venture, but they are taken and controlled against an expected value that does not necessarily belong to a strategic objective. However, OPIs require more operational effort to measure because of their components.



Next, let's dive deeper into the minimum variables that we need to measure to have a robust dashboard with OPIs and KPIs of the venture. Normally, we need to record, at least once a month, these variables:

**Table 2: Minimum variables to build an OPI and KPI dashboard**

Variable abbreviation	Variable	Register
Ce	Commercialization expense	€
Oe	Operating expenses	€
Ae	Administrative expenses	€
Ee	Other expenses	€
L	Leads generated in the month	<i>Leads</i>
U	Users registered in the month	Users
N	New customers in the month	Clients
Cem<6	End of month customers acquired in the last 6 months	Clients
Cc	Customer churns in the month	Clients
ALC	Average life of all customers at the end of the month	Months
S	Total sales for the month	€

Source: own elaboration.

And, for one time only, at the beginning of the venture, we have to record these three:

**Table 3: Variables applicable to the beginning of the venture**

Variable abbreviation	Variable	Register
Coh	Cash on hand at the beginning of the month	€
Cbm<6	Existing customers acquired in the last 6 months at the beginning of the month	Clients
Cbm>6	Existing customers acquired more than 6 months at the beginning of the month	Clients

Source: own elaboration.

Therefore, from these measurements, which represent our OPI indicators, we can start calculating the following KPIs:



$$\text{Attraction (A)} = \frac{\left(\frac{\text{Coh}}{B_m} - E_{nm}\right)}{C_{lead}}$$

$$\text{Conversion (C)} = L_{cr} \times U_{cr}$$

$$\text{Retention (R)} = C_{bm < 6} - Cc$$

$$\text{Loyalty (BL)} = C_{bm > 6}$$

$$\text{Problem Solution Fit (PSF)} = A \times C$$

$$\text{Product Market Fit (PMF)} = R + BL$$

$$\text{Sales} = (PSF + PMF) \times A_t$$

**Table 4: Metrics that matter**

Indicator	Area		Description
<b>KPI</b> (they build themselves)	<b>Attracting:</b> we obtain financing and leads at a low cost	A	Obtaining financing and acquiring customers at the lowest cost possible
	<b>Converting:</b> leads register and pay	C	Attracting and engaging customers to register and pay
	<b>Retaining:</b> our customers do not churn	R	Retaining customers
	<b>Building Loyalty:</b> our customers are fascinated	BL	Having long-standing customers who continue to use our product
	We increase the average ticket	At	Increasing average ticket by adding services and controlling promotions
	<b>Result:</b> we sell	Ts	Total sales
	Problem Solution Fit	PSF	Validation of the Problem Solution Fit
	Product Market Fit	PMF	Validation of the Product Market Fit
	Customer Acquisition Cost	CAC	Customer Acquisition Cost
	Life cycle of the client	CLTV	Customer Lifetime Value
Validation	V	Validation (in million of \$)	
<b>OPI</b> (they build themselves)	<b>Attracting:</b> we obtain financing and leads at a low cost	Coh	Cash on hand at the beginning of the month
		Bm	Burn
		Enm	Monthly non-marketing expenses



		Cleads	Monthly cost of lead acquisition
	<b>Converting:</b> leads register and pay	Lcr	Monthly lead conversion rate for the month
		Ucr	Monthly user conversion rate for
	<b>Retaining:</b> our customers do not churn	Cbm<6	Existing customers acquired in the last 6 months at the beginning of the month
		Cc	Customer churns in the month
	<b>Building Loyalty:</b> our customers are fascinated	Cbm>6	Existing customers acquired more than 6 months at the beginning of the month
	We increase the average ticket	At	Average ticket or contract
<b>10</b> Metrics to record monthly	<b>Attracting:</b> we obtain financing and leads at a low cost	Coh	Cash on hand at the beginning of the month
		Ce	Commercialization expense
		Oe	Operating expenses
		Ae	Administrative expenses
		Ee	Other expenses
		Te	Total expenses
	<b>Converting:</b> leads register and pay	L	Leads generated in the month
		U	Users registered in the month
		N	New customers in the month
	<b>Retaining:</b> our customers do not churn	Cbm<6	Existing customers acquired in the last 6 months at the beginning of the month
		Cme<6	Customers at month-end acquired in the last 6 months
		Cc	Customer churns in the month

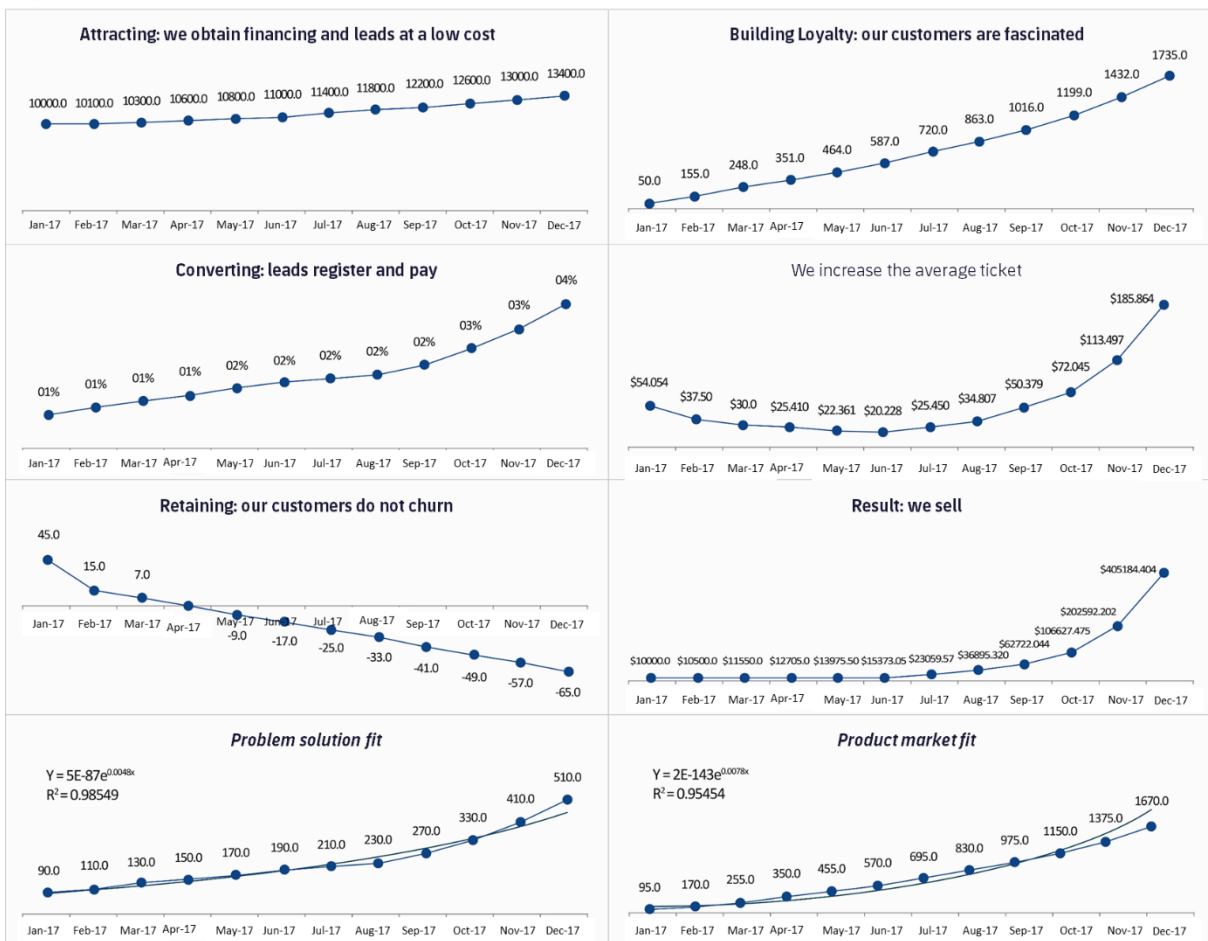


		ALC	Average life of all customers at the end of the month
<b>Building Loyalty:</b> our customers are fascinated		Cbm>6	Existing customers acquired more than 6 months at the beginning of the month
		Cme>6	Customers at month-end acquired more than 6 months at the beginning of the month
We increase the average ticket		S	Total sales for the month
		Cem	End of month customers

Source: own elaboration.

By constructing them on a monthly basis, we can see the change of these variables over time as well as with respect to themselves (acceleration):

Figure 4: Application example



Source: own elaboration.

It is important to see how we can break down the sales variable into five indicators that show the evolution of different aspects of the venture. In the example, sales are growing, but it can be seen that retention is falling and there is a problem to analyze.

We believe that you should make a significant effort to build these dashboards since metrics are critical to evaluate the venture and to generate the keys that will make it grow.



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